ies Briefing
Institute for Employment Studies

Labour Market Statistics, September 2024

10 September 2024

This briefing sets out analysis of the Labour Market Statistics published this morning. These statistics are from five sources this month:

- The **Labour Force Survey (LFS)** – the main household survey that collects official figures on employment, unemployment and 'economic inactivity' (the term used to describe where people are either not looking and/ or not available for work);
- **Workforce Jobs (WFJ)**, which measures the number of jobs in the economy using various employer surveys and the LFS, and is published quarterly;
- **HMRC Pay As You Earn (PAYE) data** – a count of payrolled employees from tax records;
- The **ONS Vacancy Survey**, which collects employer data on open vacancies; and
- The **Monthly Wages and Salaries Survey**, which collects pay data from businesses in order to estimate Average Weekly Earnings (AWE).

Today's LFS data covers the period to May-July 2024, and the Wages and Salaries Survey is also up to July 2024. Vacancy Survey and PAYE data are available to August 2024, while WFJ only covers the period to April-June 2024. As with previous briefings, note that LFS data was reweighted in February and for some time series the new weights are only available for autumn 2022 onwards – this is indicated in footnotes where applicable (and by a broken line in graphs).

Summary

Today's figures are a mixed bag and a confusing picture. Increased volatility in the main Labour Force Survey, combined with divergent trends between the LFS and other measures out today (for Workforce Jobs and payrolled employees) mean it is even harder than usual to draw conclusions on what is going on in the labour market. What we can say for sure is that all three sources are pointing towards either little or no growth in the *number* of people employed, even if Workforce Jobs and payroll data suggests that employment had been growing fairly steadily over the last couple of years. We also know that the LFS is under-stating the number of people in work (and the number out of work) because it is using out-of-date population estimates – however this is not enough to

explain the gap with other data sources. In the first part of today's briefing we try to explain these issues in a bit more detail than usual.

We also know that even if employment *levels* may have grown over recent years, this has been driven by population growth – with the employment *rate* still well below where it was before the pandemic began and the proportion of people out of work much higher. The figures out today, as well as those last month when we did not publish a monthly briefing, have shown a significant improvement on the very weak data that we saw earlier in the year, with employment rising to 74.8%, unemployment down to 4.1% and economic inactivity at 21.9%. However, the volatility in employment estimates means that we need to treat short-term changes with some caution.

Nonetheless, there are still a number of more worrying signs in the more detailed data on worklessness for different groups. In particular, we have seen significant increases in the number of people out of work who are aged under 35, with an unwelcome increase in the proportion of young people not in full-time education nor in the labour force – which is now back to the highest it has been since comparable records began in the early 1990s. We have also seen an increase over the last year in the number of women out of work with caring responsibilities and more men off work with long-term health conditions.

Looking at the wider economy, vacancies continue to edge down – reaching their lowest in three years – driven in particular by fewer jobs in lower paying service industries and in health and care. However there remain around 860 thousand unfilled jobs, and earnings growth remains strong too – at 5% year on year, and likely to remain above inflation at least through the autumn. So we can clearly do more to help people who are out of work get back to work and to help employers fill their jobs.

In our view then, the government is right to prioritise employment growth as a key driver of a stronger economy, more stable public finances and improved living standards. Extending access to high-quality employment support has a key role to play in doing this, and we will be publishing next week the final report from our Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust which will set out proposals for reform over the coming Parliament.

In the short term though, government also needs to move quickly at the autumn Budget to address the cliff-edges in funding over the next few months months – with the Work Health Programme and UK Shared Prosperity Fund both due to end, and the Universal Support programme not yet ready to start rolling out. At a minimum, government needs to commit at the Budget to extendng existing provision and to rolling out Universal Support as soon as possible, but there is a case for going further too to address gaps and meet needs while longer-term changes are put in place.

Trends on employment *levels* are unclear…

Today sees publication of quarterly data on 'Workforce Jobs' (WFJ), which is compiled using returns from a series of employer surveys to estimate employee numbers, with Labour Force Survey data on self-employment then added on to give an estimate of total

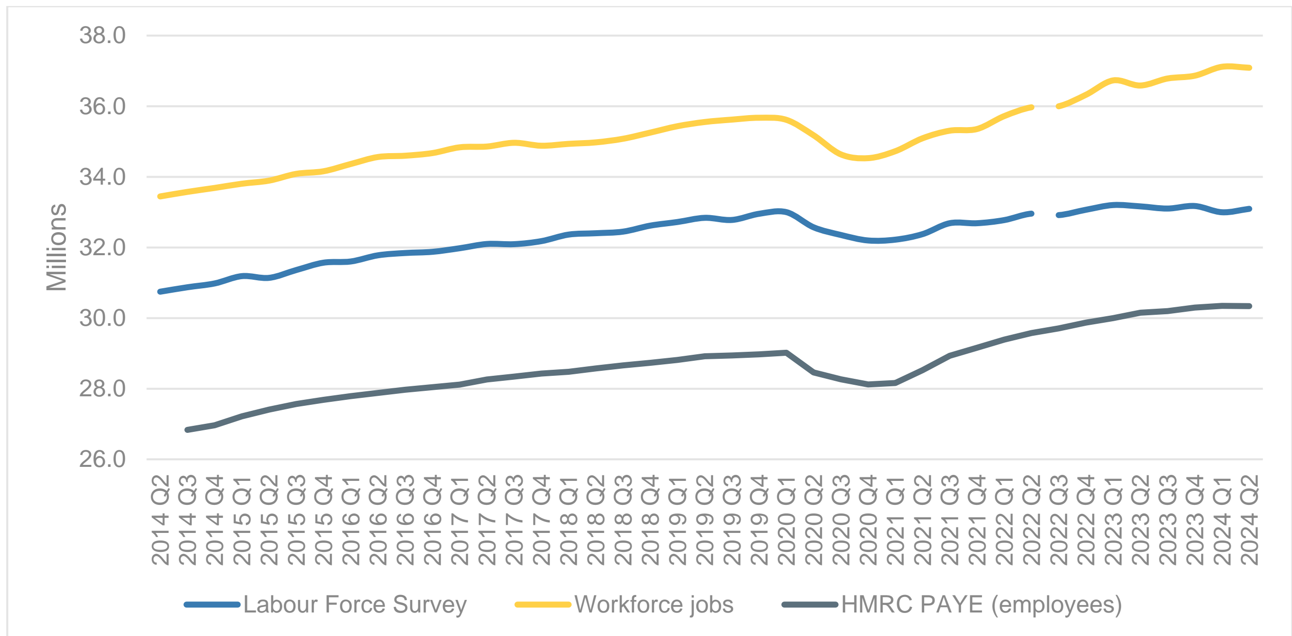
jobs. This means that we have three sources for employment data today – the Labour Force Survey, WFJ and HMRC 'Pay As You Earn' data from tax records – and the ONS have pointed out again this month that these three sources are showing 'divergent trends': with WFJ reporting that employment is up by 500 thousand in the year ending April-June 2024; PAYE data reporting 185 thousand more employees over the same period; but the LFS reported a fall in employment of 70 thousand up to the April-June quarter (but today's LFS figures, to July 2024, are stronger – showing a rise in employment levels).

These three data sources always give different figures: WFJ is always higher than the LFS because there are more jobs in the economy than there are people employed (partly because a million or so people work two jobs, and partly because of other factors like timing differences – where employers may report a job as existing where someone has recently left it or is about to join); and PAYE data is always lower than the LFS because it does not count people who are self-employed. However the *trends* between the three measures, and particularly between the LFS and the other two, have been different post-pandemic – with WFJ and PAYE data both rising while the LFS has been flat or slightly falling.

The three measures are shown in Figure 1 below, and illustrate how the gap between the LFS (blue) and WFJ (yellow) has widened while the gap between the LFS and PAYE (black) has narrowed in recent years – i.e. the LFS is telling a less positive story than other sources. Figure 2 then shows the year-on-year changes in *employee* estimates on each measure over the last seven years – showing that the trends across all three were broadly consistent before the pandemic but that the LFS specifically has been very different since, with employee jobs growth nearly half a million lower per year since 2021/22 (note that the divergence during the pandemic itself is likely related to how employees were furloughed). As we said in our June briefing (and in previous quarters too), the reasons for this divergence are not clear and the ONS has not reconciled the datasets since October 2022. Certainly part of the reason is that the ONS is using out-of-date population projections for the LFS – which the Bank of England pointed out in May 2024, and we noted in our June briefing that using the most recent data would likely add around 300 thousand to LFS employment. However, this would only close around one quarter of the gap that has emerged in the last few years.

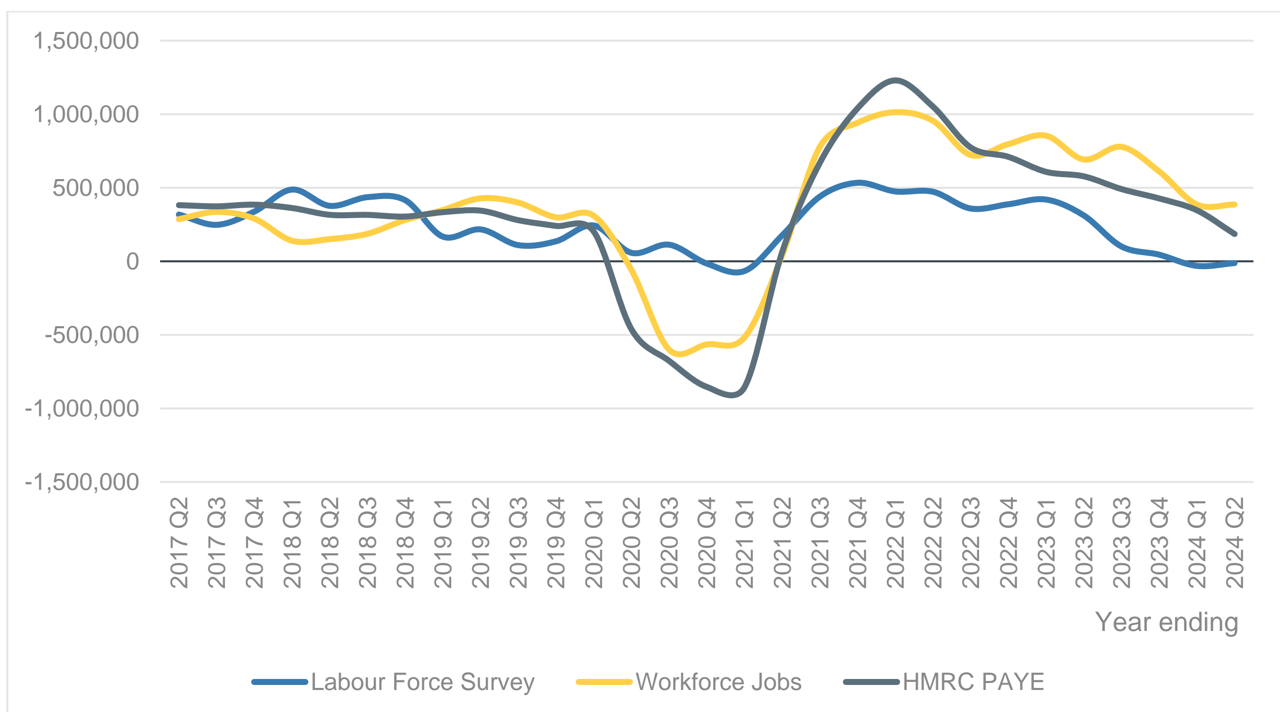
Another possibility is that there is an issue with how the LFS survey data is being weighted. The Resolution Foundation explored this in a briefing note last month and showed that 'response rates' to the LFS have fallen further for those who are more likely to be in employment than those who are less likely, which could in theory mean that employment is being under-estimated. However, they also point out that the ONS's processes for 'weighting' responses should account for these risks.

Figure 1: Employment estimates from Labour Force Survey, Workforce Jobs and Pay As You Earn data



Source: Labour Force Survey, Workforce Jobs, Pay As You Earn Real Time Information. Note that LFS data from July to September 2022 onward has been reweighted, causing a step change discontinuity for the LFS and this measure of WFJ (as it includes self-employment estimates from LFS data).

Figure 2: Year-on-year change in employee numbers: Labour Force Survey, Workforce Jobs and HMRC Pay As You Earn data



Source: Labour Force Survey, Workforce Jobs, Pay As You Earn Real Time Information. Note that LFS data from July to September 2022 onward has been reweighted, causing a step change discontinuity for the LFS.

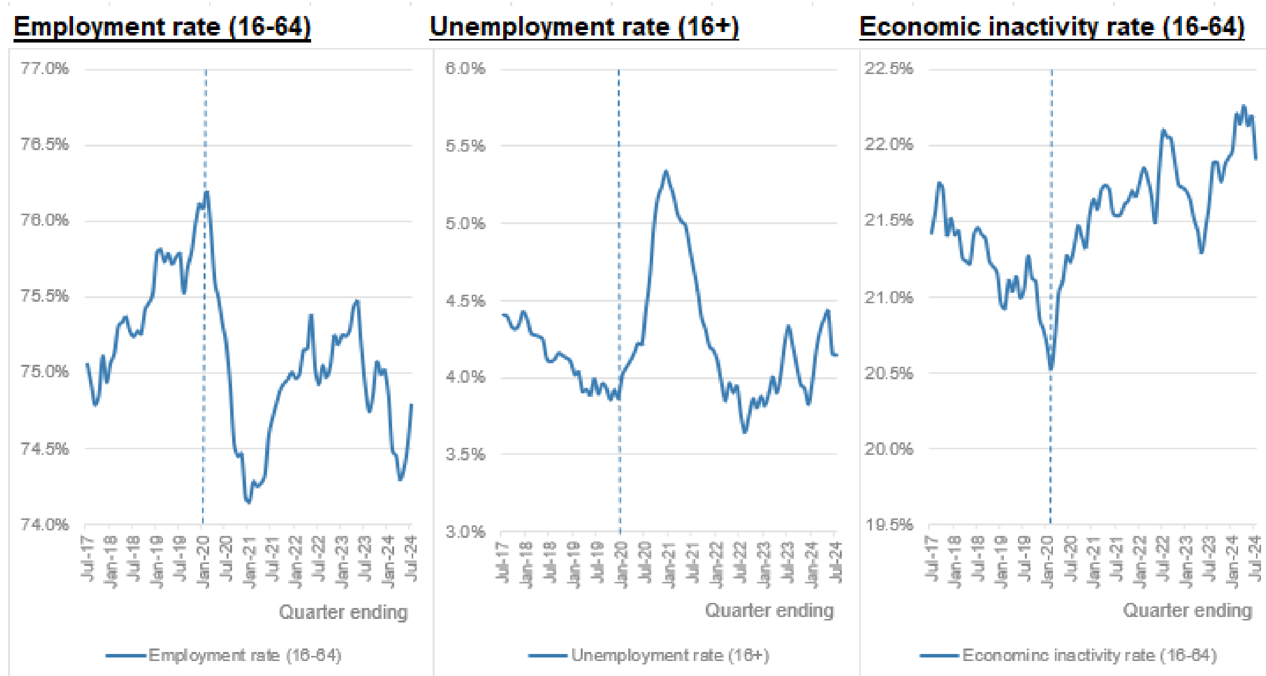
Overall then, we know that the LFS is under-estimating levels of employment but we do not know by how much, while separately we also know that lower response rates in the LFS mean that the data is more volatile now than before – meaning that short-term changes need to be treated with caution. What we can say though, from looking across all three sources, is that the number of people in employment is not growing strongly and that overall it appears to be levelling off. And as we have said in previous briefings, this presents challenges for the economy because for most of the period since the financial crisis we have relied on higher employment to drive economic growth.

However the employment *rate* remains lower than pre-pandemic, but with signs of recent improvement

For all of the issues with the LFS, we will continue to report on it in our briefings because it is the only source that can provide estimates of the *proportion* of the population in different statuses, and it is the only source that can tell us about people who aren't in work. However to reiterate, greater volatility in the data means that we need to treat short-term changes with caution; and issues with the population estimates mean that levels in the LFS are probably being under-reported by around 1%.

With those caveats then, Figure 3 shows the latest headline estimates for the employment, unemployment and economic inactivity rates. Today's figures show continued improvement on all three measures after the uptick we saw last month, although as noted short-term changes need to be treated with caution. The employment rate now stands at 74.8%, unemployment at 4.1% and economic inactivity at 21.9%, with all three indicators now back to more or less where they were a year ago. Nonetheless, employment and economic inactivity remain significantly worse than they were before the pandemic began.

Figure 3: Employment, unemployment and economic inactivity rates (%)



Source: Labour Force Survey. Vertical dotted line indicates start of first Covid-19 lockdown.

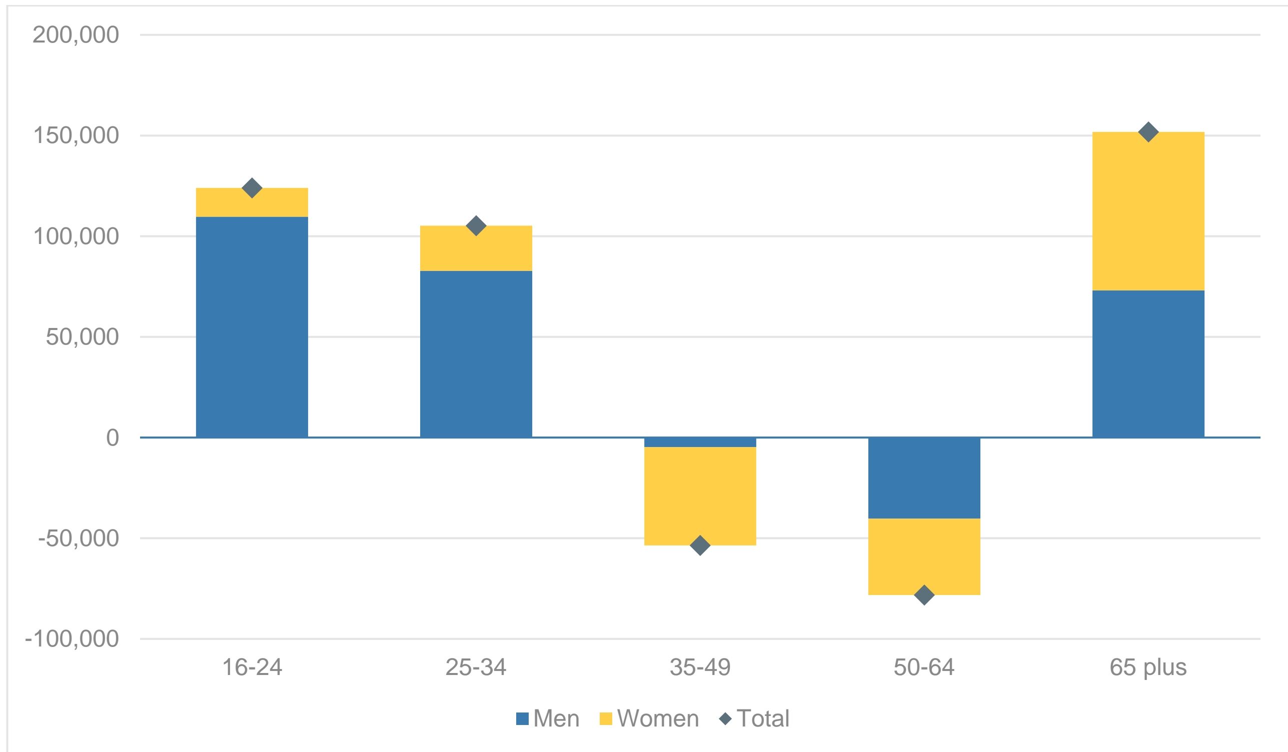
The number out of work and aged under 35 is rising, especially for young people outside education

While the *rates* of employment, unemployment and economic inactivity are broadly back to where they were a year ago, population growth means that we are seeing small increases in the *levels* of both employment and economic inactivity – with the former up by 150 thousand over the last year and the latter up by 310 thousand (or 160 thousand if we exclude people aged 65 and over). And as noted, these increases are likely to be revised upwards (albeit very slightly) when up-to-date population projections are incorporated.

Figure 4 below shows how these increases in the number of people out of work (either unemployed or economically inactive) break down by age and gender, and show that the headline changes disguise significant variation. Worklessness is up significantly over the last year for people aged under 35, while it is falling for people aged 35-64. *Rates* of worklessness are rising too among younger people and falling among older groups. Among those aged 65 and over, higher worklessness is being driven by population growth, with the proportion of this group out of work falling slightly over the last year.

As we noted in our last briefing, women are a lot more likely to be out of work than men (around a quarter of the population aged 16-64 for women, compared with a fifth for men) and this is particularly the case between the ages of 25 and 34 (with women roughly twice as likely to be out of work). Nonetheless, Figure 4 also shows that recent growth in worklessness in the last year has mainly been amongst men in particular.

Figure 4: Change in worklessness (unemployed plus economic inactivity) over last year by age and gender



Source: Labour Force Survey

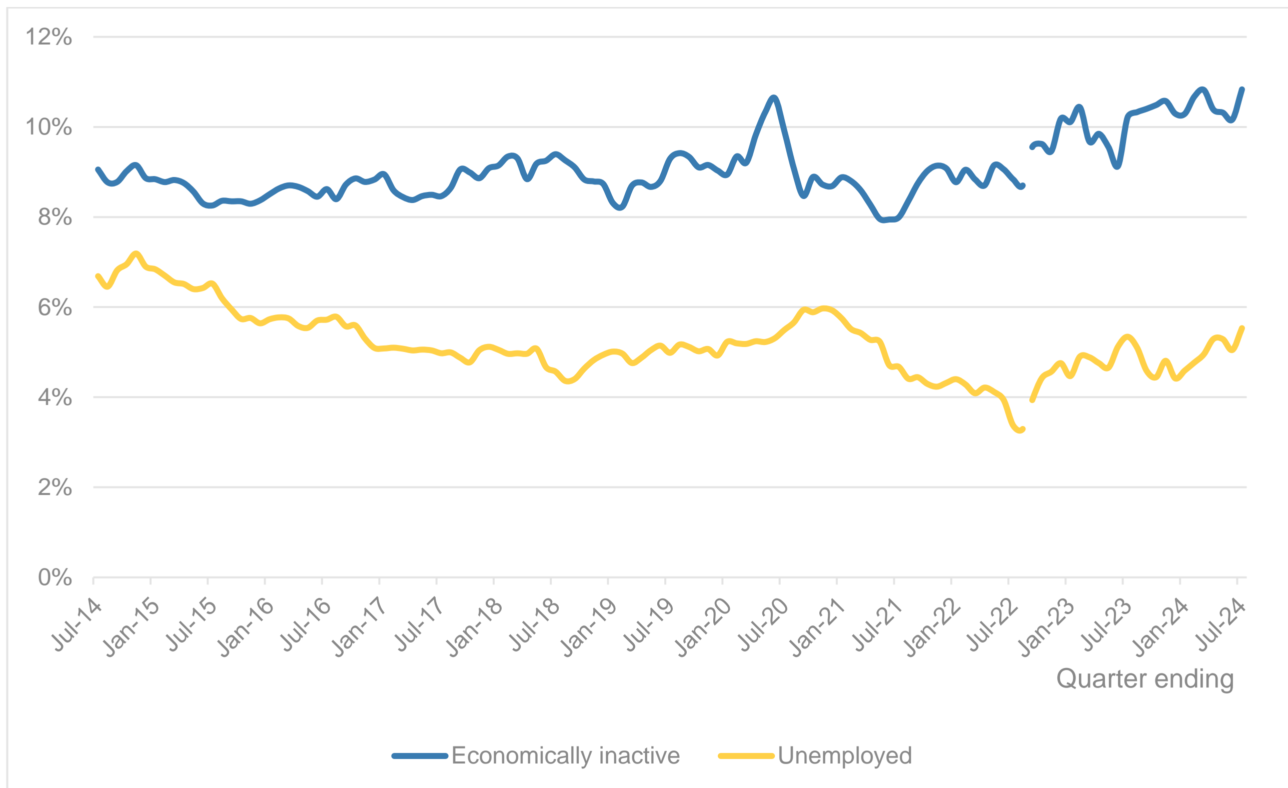
As Figure 5 below shows, this higher worklessness seems to be being particularly driven by an increase in the number of men out of work studying or with long-term health conditions, and an increase in women out of work for caring reasons. There has also been a significant fall in the number of women out of work for ‘other’ reasons – which includes people waiting for jobs to start or not working because they do not need to do so. Unfortunately this data does not break down by both reason and age group, but does nonetheless suggest that there are different factors driving higher worklessness for men and women amongst people aged under 35.

Figure 5: Change in economic inactivity over last year by main reason given and gender (aged 16-64)

Source: Labour Force Survey

Today's figures are particularly poor for young people aged 16-24. Over the last three years, the share of young people neither in full-time education nor in the labour force has been rising and had reached its highest ever rate earlier this year. Recent months however had seen the figures start to improve, but today's data shows a significant deterioration with the proportion of young people not in full-time education and economically inactive back up to 10.8% - the highest it has been. Unemployment also appears to be edging up, with both shown in Figure 6 below. Overall this is a good reminder of the volatility of the LFS data, particularly where sample sizes are smaller, and shows that the position for young people in the labour market remains very concerning.

Figure 6: Proportion of young people not in full-time education or employment, by whether unemployed or economically inactive

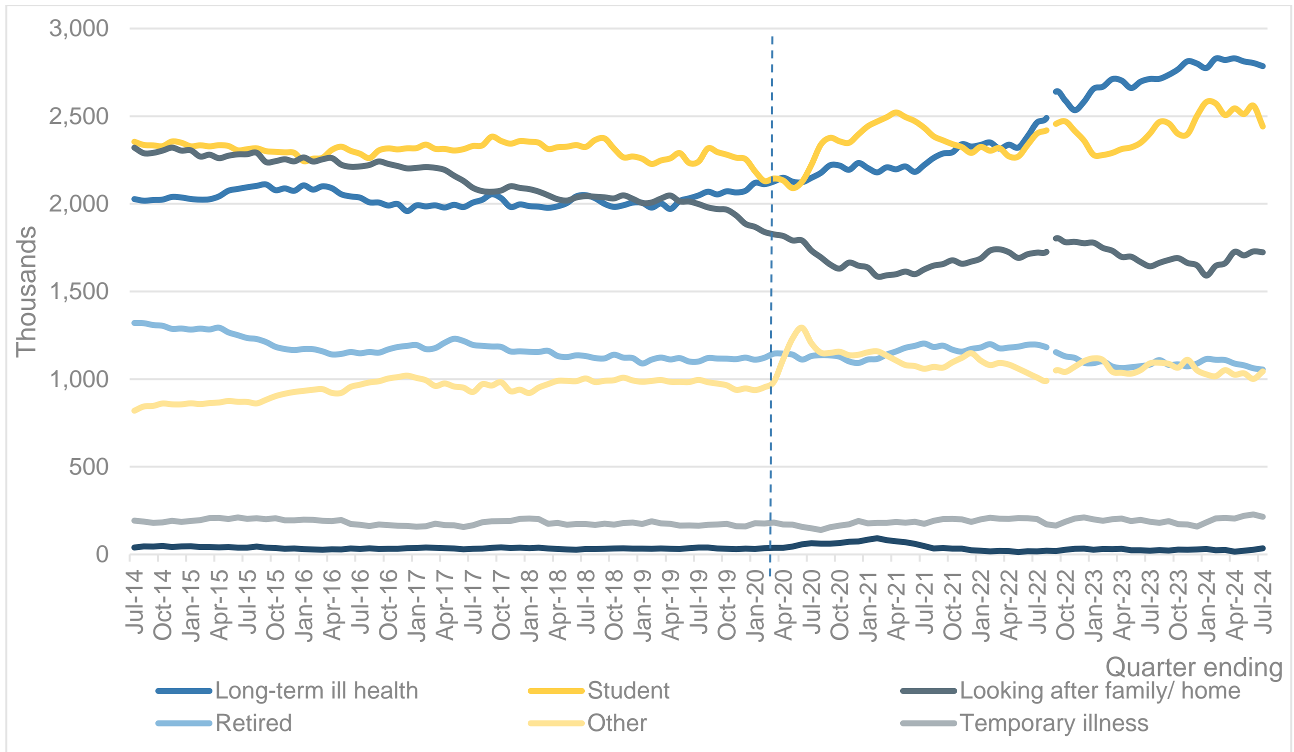


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Worklessness due to long-term ill health may have peaked, while students and caring reasons edge up

Looking more broadly at reasons for being outside the labour force, Figure 7 below shows that the number of people off work with long-term health conditions does now appear to have levelled off (blue line) – albeit at close to 2.8 million people, which is around a third higher than the level on the eve of the pandemic (and as noted earlier in the briefing, levels are likely to be revised up slightly when new population projections are incorporated). Non-working students (yellow) and those off work with caring responsibilities (black) have also risen over the last year, but with more recent trends less certain. Economic inactivity for other reasons is broadly flat.

Figure 7: Economic inactivity by main reason given

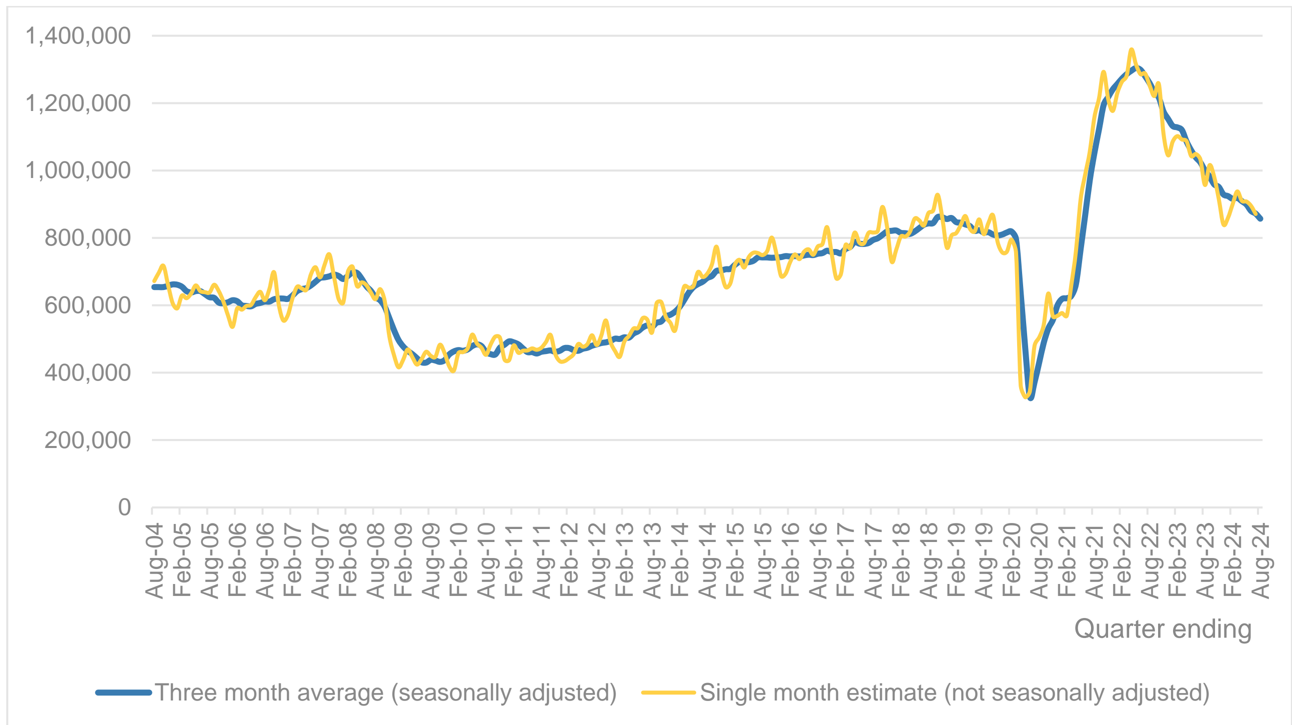


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Vacancies continue to edge down, with disappointing figures for August

We noted in our last briefing (in July) that there were some signs of a softening of demand in the economy over the early summer, with weaker-than-expected vacancy figures and a slighty rise in short-term unemployment. Positively, since then we have seen short-term unemployment edge down a bit (to its lowest in over a year) but vacancy figures have continued to be fairly poor. Today saw a quarterly fall of around 40 thousand to 860 thousand – their lowest level since April-June 2021 and the largest quarterly fall since the end of last year. Figure 8 below shows the headline quarterly estimate in blue and latest monthly estimates in yellow (with the latter not seasonally adjusted).

Figure 8: Vacancies – quarterly and single-month estimates

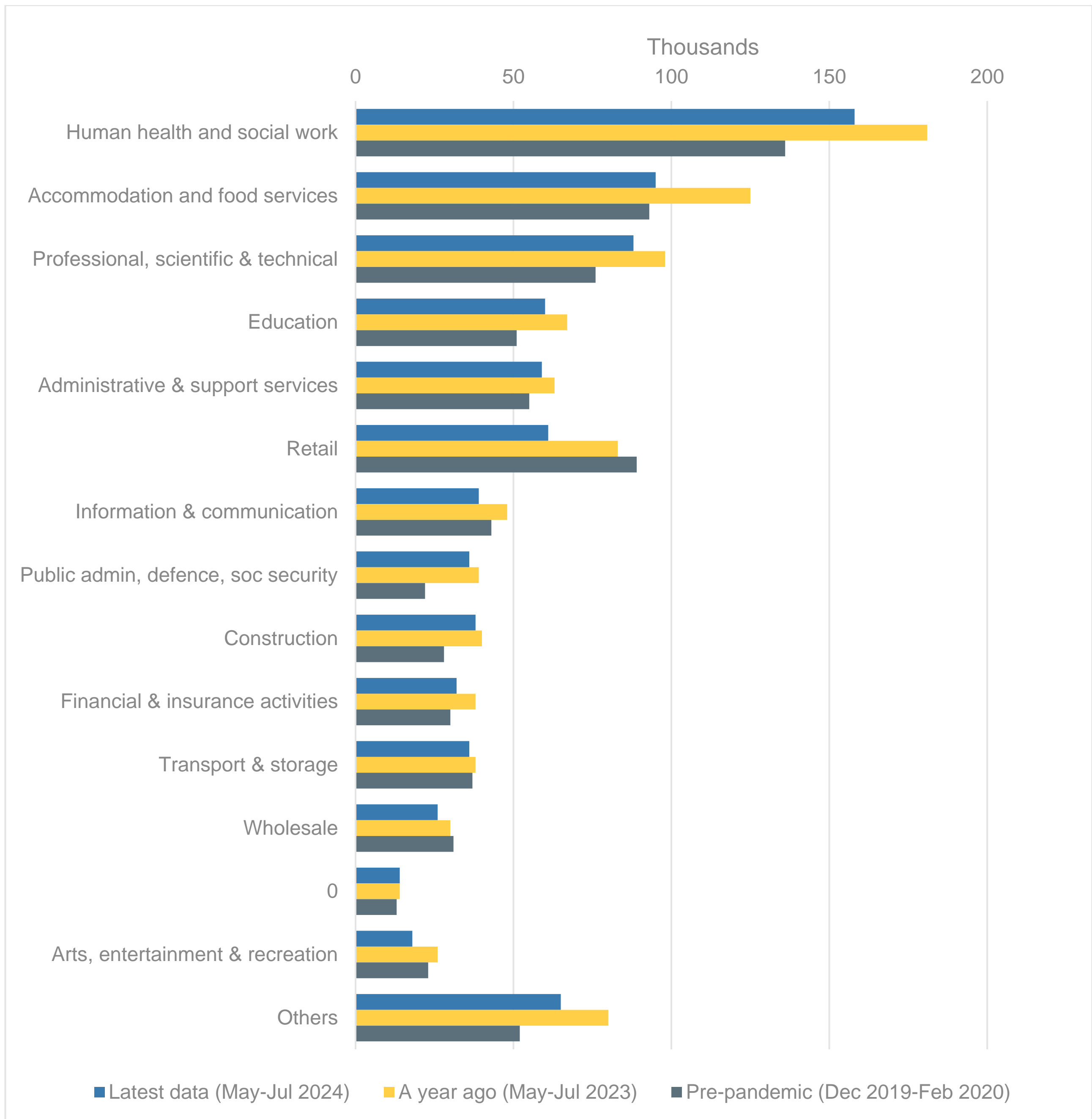


Source: ONS Vacancy Survey

Looking in more detail at changes by industry, Figure 9 then shows the latest estimates (blue) compared with those for the same time a year ago (yellow) and before the pandemic (black). As with previous months, vacancies remain down across the economy over the last year, with the largest falls in lower paying service industries (accommodation and food services and retail) and in health and and social care. Compared with pre-pandemic, vacancies in around half of sectors are lower now than they were, with some industries – such as retail and arts/ entertainment/ recreation appearing to be in fairly marked decline. At the same time, vacancies in several white-collar industries (in particular the public sector, education, administration and support) and vacancies in construction are only marginally down on last year and well above pre-pandemic.

All told, today's figures show that there are fewer job openings now than in recent years but that there remain areas of very high demand alongside those where demand is falling faster. And with unemployment back close to historic lows, this reiterates the need to do more to help raise participation in the labour force for those who are out of work but not yet ready or able to come back.

Figure 9: Vacancies by industry: latest data (Jun-Aug 2024), a year ago (Jun-Aug 2023) and pre-pandemic (Dec 2019-Feb 2020)



Source: ONS Vacancy Survey

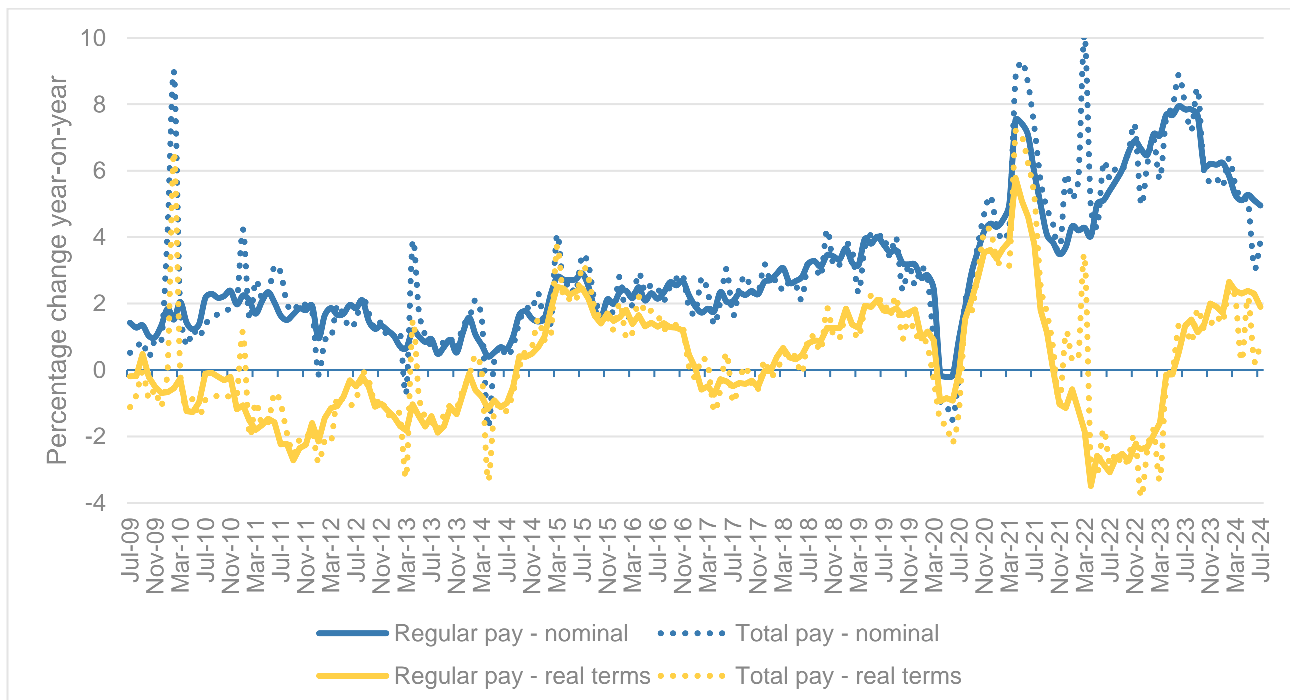
Pay growth remains around 5%, with 'real' pay growth around 2% and prospects still fairly benign

Today's pay figures remain fairly positive, with regular pay (excluding bonuses and arrears) rising by on average 5.0% between July 2023 and July 2024. This is well below the heady peaks of 8% growth that we saw a year ago, but as the ONS note those figures were aided by large public sector pay settlements and today's figures are the weaker for

being compared with them. The underlying pay figures remain strong by historic standards, and of course in the coming months we will see some positive effects from the latest round of public sector pay settlements announced over the summer. With inflation now more or less under control, 'real' pay is also continuing to show decent growth, up by 1.9% year on year. Overall, pay in real terms is now £22 a week (3.6%) higher than it was on the eve of the Covid-19 pandemic, although only £19 a week (3.1%) higher than the peak it reached before the financial crisis in 2008.

Figure 10 below sets these trends out, with nominal pay growth in blue and 'real' pay in yellow (solid lines are regular pay, dotted lines are total pay including bonuses and arrears). It is notable that 'total pay' including bonuses and arrears has been weak over the last two months, but again this reflects the fact that the comparison point is June and July 2023 which included very high arrears payments in the public sector.

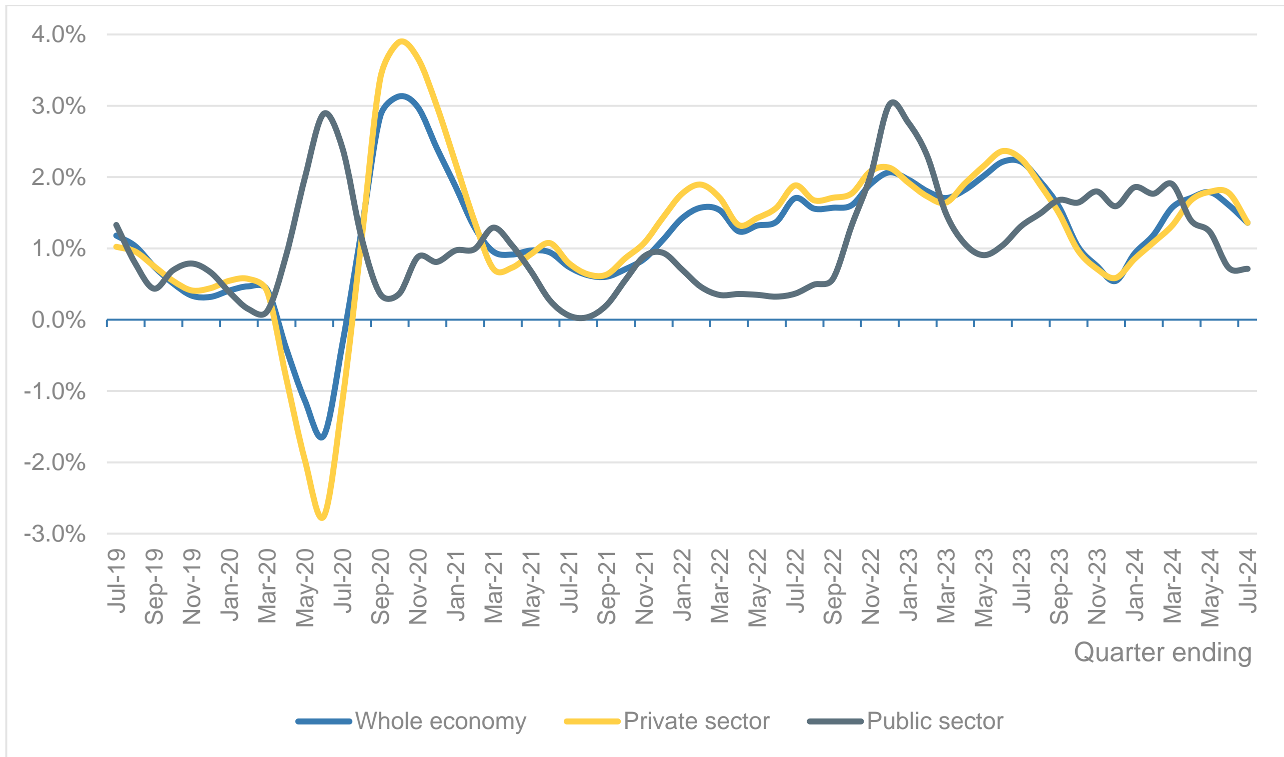
Figure 10: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Looking at shorter-term trends in pay, Figure 10Figure 11 shows quarter-on-quarter pay growth, so comparing average regular pay growth over non-overlapping, consecutive quarters (e.g. comparing pay for February-April with pay for May-July). This shows that overall pay growth (the blue line) is running at around 1.4% a quarter, so the equivalent of 5.6% a year. This is down a bit on recent months (1.8%) but higher than it was earlier in the year. Public sector pay growth has been particularly weak (shown in black) but this will change in the coming months; while there are signs that private sector pay growth may have slowed over the early summer (yellow).

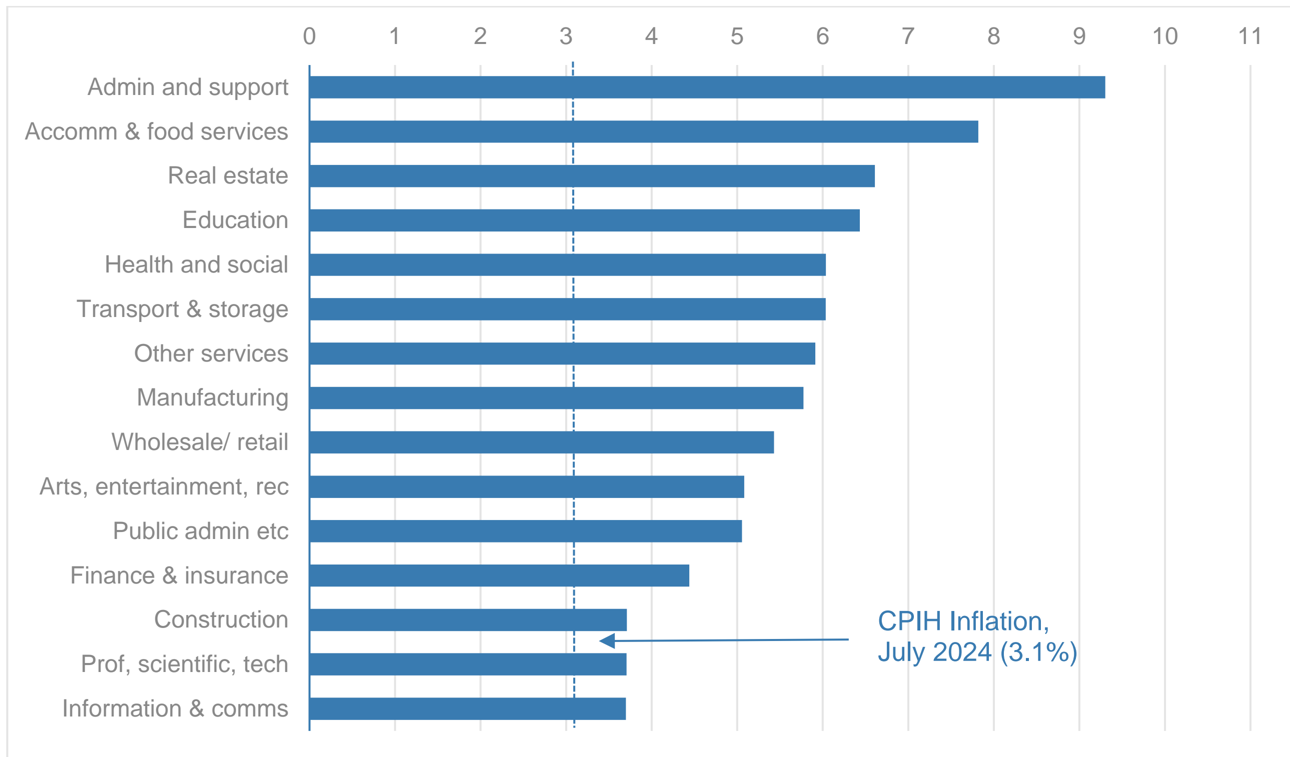
Figure 11: Quarter-on-quarter changes in quarterly average for regular pay



Source: ONS Monthly Wages and Salaries Survey. Measure shown compares average pay in the quarter ending in the month specified, compared with the previous non-overlapping quarter.

Finally, Figure 12 shows pay growth by industry, and again shows that pay is now growing faster than inflation across all industries. As we have noted in previous months, this is being driven by different factors in different industries – in particular large increases in the National Living Wage are benefiting low-paying sectors, while improvements in public sector pay last summer and autumn have led to strong annual growth in public services.

Figure 12: Year-on-year change in regular pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for May-July 2024 (not seasonally adjusted).

Conclusion

Given the uncertainties around labour market statistics at the moment it is harder than usual to draw firm conclusions from single months of data. Nonetheless, we can draw some broad themes and trends. First, employment growth remains weak and may have weakened. In as far as employment has held up, this has been driven by a larger population more than by higher participation in work. Secondly, the main challenge that we face continues to be rising numbers out of work, and in particular more people out of work who are younger (aged under 35) and more off work with health conditions or caring responsibilities. Thirdly, at the same time, unemployment remains very low and vacancies are high – even if they are falling in some industries. So there is clearly still scope to do more to help employers fill their jobs. And finally, earnings at work are continuing to show decent growth, even as inflation falls back.

In our view then, and as we set out in our July briefing, the government is right to prioritise employment growth as a key driver of a stronger economy, more stable public finances and improved living standards. As we have set out previously, we believe that improving access to high-quality employment support has a key role to play in doing this, both to enable more people to get into and stay in work, but also to make work better for those in low paid or insecure work. We will be publishing next week the final report from our

Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust, which will set out how this can be achieved in the longer term.

In the short term though, government also needs to move quickly at the autumn Budget to address the cliff-edges in funding over the coming months – with the Work Health Programme and UK Shared Prosperity Fund both due to end, and the Universal Support programme not yet ready to start rolling out. At a minimum, government needs to extend existing provision and commit to rolling out Universal Support as soon as possible, but there is a case for going further too to address gaps and meet needs while longer-term reforms are worked through.

About IES

The Institute for Employment studies is an independent, apolitical centre of research and consultancy in employment policy and human resource management. It works with employers, government departments, agencies and professional and employee bodies to support sustained improvements in employment policy and practice.

Institute for Employment Studies, City Gate, 185 Dyke Road, Brighton, BN3 1TL United Kingdom

www.employment-studies.co.uk

@EmploymtStudies

01273 763400